

Contemporaneous with the conduct of this Study, NCIUA has been moving forward with its own efforts to improve the Beach Plan's financial position. On December 2, 2008, Mr. Don Evans, NCIUA Board Member, Insurance Agent and Study Committee Member, presented three changes to the NCIUA's Plan of Operation which were requested by the NCIUA and recently approved by the Commissioner effective February 1, 2009: (1) deductibles on all properties were increased to 2% on residential and commercial properties (5% on residential properties on Bald Head Island) with a minimum of \$1000; (2) the ceiling on retained surplus was increased from \$750M to \$1.1B and will be reviewed annually; and (3) the differential, as explained in the opening paragraphs, was increased from 1.15 (15%) to 1.25 (25%) for homeowners policies and from 1.05(5%) to 1.15 (15%) for wind only homeowners policies. As explained by Mr. Evans, the deductible changes will increase deductibles from \$518M to \$861M. This difference will result in savings to the Plan. The Plan's reinsurance costs will also be reduced by \$5M annually. The deductible change may also result in more voluntary coverage being written on the coast since the increased deductible will bring the Plan in line with the voluntary market. Finally Mr. Evans noted that the Plan is committed to using surplus to purchase reinsurance for at least a 1 in 100 year storm or approximately \$4B in reinsurance at a cost of \$198M annually, with a \$14.5 million reinstatement fee following a loss.

The Department of Insurance has also taken steps that it hopes will encourage the voluntary market in the beach and coastal areas. In the meeting on December 18, 2008, Ms. Rose Vaughn Williams, Legislative Counsel, N.C. Department of Insurance, reminded the Committee that the Beach Plan was designed to include assessments on private insurers as a means to encourage companies to write on the coast because the amount of assessment is lowered by the amount a company writes in beach and coastal coverage. Ms. Williams also reiterated that those insured by the Beach Plan receive a "double-whammy" when voluntary rates are increased because the Beach Plan differential is added to the approved voluntary rate. However, in light of concerns over the Plan's ability to withstand losses incurred from a major hurricane, the Commissioner approved the changes summarized by Mr. Evans.

Ms. Williams continued her presentation by announcing a settlement agreement between the N.C. Rate Bureau and the Commissioner for an overall statewide increase in rates in the voluntary market of 4.05%. (In his presentation of December 2, 2008, Mr. Ray Evans, General Manager, N.C. Rate Bureau, indicated to the Committee that the Rate Bureau was seeking a 19.5% overall increase in rates from the Commissioner.) As explained by Ms. Williams, while the Commissioner's order included rate decreases in certain rating territories, the majority of territories will see an increase in rates. Counties in the beach and coastal areas will see the largest increases including three territories (6, 42 and 43E) with increases between 17% and 30%. Ms. Williams noted that the increase in rates coupled with the other changes to the NCIUA's Plan of Operation should result in growth in the voluntary market in the beach and coastal areas and decreased exposure to losses by the Plan. The Department estimates that the amount of assessment on insurers from a 1 in 100 year storm will be reduced by more than half by these changes. Ms. Williams added that the Department does not support a surcharge on policy holders in the beach and coastal areas or across the State.